

28 January 2023

DCB Bank

Decent quarter, RoA to hold near 1%; maintaining a Buy

Higher opex counterbalanced DCB Bank's strong NII growth, keeping the C/I ratio above 60%; benign credit cost, however, aided profitability, with the RoA coming near ~1%. Higher slippages kept asset quality under pressure. Key positives for the quarter were 1) collection efficiency improving across key segments, 2) strong recoveries/upgrades, 3) decline in stress across core segments (excl. Corp.) and 4) strong traction in disbursements across key segments. With credit growth expected to pick up and normalising credit costs, earnings would improve. We retain our Buy rating, with a TP of Rs146, valuing the stock at 0.8x P/ABV on the FY25e book.

Slippages to moderate in a couple of quarters. Slippages for the quarter were a high Rs4.0bn (5.1% of loans), ~11% lower than in the previous quarter. Recoveries/upgrades were strong, reflecting the bank's collection efforts. Collection efficiency (incl. NPA and the restructured pool), the key portfolio (details in Fig. 7) has been steadily improving. The net standard restructured book was Rs16.3bn (4.9% of the loans). With improvements in business activities and collections across various segments, slippages are expected to moderate in a couple of quarters.

RoA to hold at ~1% in the medium term. With growth expected to be in mid-teens and a moderating slippage run-rate, medium-term credit costs are expected to be soft. Higher business growth combined with benign credit costs would lead to strong profitability in the medium term. We estimate a ~1% RoA through FY24 and FY25.

Valuation. Our Jan'24 target of Rs146 is based on the two-stage DDM model. This implies a ~0.8x P/ABV multiple on its FY25e book. **Risks:** Less-than-expected loan-book growth; large slippages from the mortgage book.

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Net interest income (Rs m)	12,866	13,575	17,386	20,440	23,547
Pre-provisioning profit (Rs m)	8,858	7,970	7,798	10,151	12,266
Provisions (Rs m)	4,330	4,074	1,583	3,293	3,852
PAT (Rs m)	3,358	2,875	4,599	5,075	6,226
EPS (Rs)	10.8	9.2	14.8	16.3	20.0
NIM (%)	3.5	3.4	3.8	3.8	3.8
Cost-income (%)	48.9	56.0	63.3	59.2	57.2
RoE (%)	9.4	7.4	10.8	10.7	11.7
RoA (%)	0.9	0.7	0.9	0.9	1.0
Advances growth (%)	1.5	13.0	18.0	17.0	17.0
GNPA (%)	4.1	4.3	3.4	3.1	2.9
CAR (%)	19.7	18.9	17.3	16.6	16.1
P / E (x)	10.5	12.3	7.7	7.0	5.7
P / BV (x)	0.9	0.9	0.8	0.7	0.6
P / ABV (x)	1.1	1.0	0.8	0.8	0.7

Source: Company, Anand Rathi Research

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Rating: Buy

Target Price: Rs146

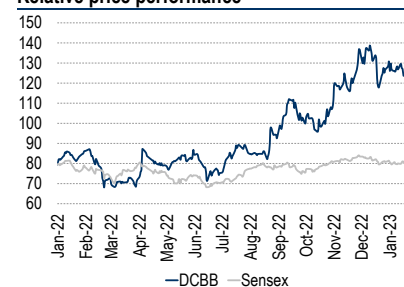
Share Price: Rs114

Key data	DCBB IN / DCBA.BO
52-week high / low	Rs,141 / 68
Sensex / Nifty	59331 / 17604
3-m average volume	\$3.8m
Market cap	Rs,35bn / \$433.5m
Shares outstanding	311m

Shareholding pattern (%)	Dec'22	Sep'22	Jun'22
Promoters	14.9	14.9	14.9
- of which, Pledged	-	-	-
Free float	85.2	85.2	85.2
- Foreign institutions	12.4	12.5	12.5
- Domestic institutions	39.5	37.5	37.6
- Public	33.3	35.1	35.1

Estimates revision (%)	FY24e	FY25e
NII	4.2	2.9
PPOP	(11.5)	(7.6)
PAT	(16.4)	(10.8)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Net interest income	12,866	13,575	17,386	20,440	23,547
<i>NII growth (%)</i>	1.7	5.5	28.1	17.6	15.2
Non-interest income	4,458	4,520	3,837	4,447	5,120
Income	17,324	18,095	21,222	24,887	28,667
<i>Income growth (%)</i>	4.6	4.5	17.3	17.3	15.2
Operating expenses	8,466	10,126	13,424	14,736	16,401
PPOP	8,858	7,970	7,798	10,151	12,266
<i>PPOP growth (%)</i>	17.6	-10.0	-2.2	30.2	20.8
Provisions	4,330	4,074	1,583	3,293	3,852
PBT	4,528	3,895	6,215	6,859	8,413
Tax	1,170	1,020	1,616	1,783	2,187
PAT	3,358	2,875	4,599	5,075	6,226
<i>PAT growth (%)</i>	-0.6	-14.4	60.0	10.4	22.7
FDEPS (Rs / sh)	10.8	9.2	14.8	16.3	20.0
DPS (Rs / sh)	0.0	0.0	0.0	0.0	0.0

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	3,105	3,110	3,112	3,112	3,112
Reserves & surplus	34,471	37,365	41,965	47,040	53,266
Deposits	297,039	346,917	412,831	483,012	565,124
Borrowings	44,823	40,818	40,002	36,002	32,402
Total liabilities	396,021	448,401	522,333	598,455	686,459
Advances	257,372	290,958	343,330	401,696	469,985
Investments	84,137	90,982	113,728	125,101	137,611
Cash & bank bal	11,829	15,775	18,536	21,779	25,591
Fixed & other assets	5,685	6,612	6,744	6,879	7,017
Total assets	396,021	448,401	522,333	598,455	686,459
No. of shares (m)	311	311	311	311	311
<i>Deposits growth (%)</i>	-2.2	16.8	19.0	17.0	17.0
<i>Advances growth (%)</i>	1.5	13.0	18.0	17.0	17.0

Source: Company, Anand Rathi Research

Fig 3 – Ratio analysis %

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
NIM	3.5	3.4	3.8	3.8	3.8
Other inc. / total inc.	25.7	25.0	18.1	17.9	17.9
Cost-income	48.9	56.0	63.3	59.2	57.2
Provision coverage	44.4	55.6	62.0	61.9	61.6
Dividend payout	0.0	0.0	0.0	0.0	0.0
Credit-deposit	86.6	83.9	83.2	83.2	83.2
Investment-deposit	28.3	26.2	27.5	25.9	24.4
Gross NPA	4.1	4.3	3.4	3.1	2.9
Net NPA	2.3	2.0	1.3	1.2	1.1
BV (Rs)	121.0	130.2	144.9	161.2	181.2
Adj. BV (Rs)	107.6	117.3	134.8	150.2	169.0
CAR (%)	19.7	18.9	17.3	16.6	16.1
- Tier 1	15.5	15.8	14.7	14.4	14.2
RoE	9.4	7.4	10.8	10.7	11.7
RoA	0.9	0.7	0.9	0.9	1.0

Source: Company, AnandRathi Research

Fig 4 – Price-to-Book band


Source: Bloomberg

Fig 5 – One-year-forward price-to-book value


Source: Company

Fig 6 – Price movement


Source: Bloomberg

Key Highlights

Fig 7 – Collection efficiency (%)

	Jun'22	Jul'22	Aug'22	Sep'22	Oct'22	Nov'22	Dec'22
Business loans	97.0	96.6	97.3	96.7	96.2	96.8	97.3
Home loans	98.4	98.0	97.9	98.1	97.8	97.9	98.3
CVs	88.6	86.3	86.1	89.4	88.0	91.0	92.4

Source: Company, Anand Rathi Research

Fig 8 – Movement in NPAs and segment-wise asset quality

Break-up of GNPA (Rs m)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
Opening balance	12,688	12,849	13,398	12,899	12,879	12,489
Slippages	4,166	4,575	3,781	5,710	4,550	4,030
Gross-slippage ratio (%)	6.5	6.8	5.5	7.8	6.1	5.2
Reductions	4,005	4,026	4,280	5,730	4,940	4,290
Upgrades	3,026	2,171	1,621	4,330	3,140	2,200
Recoveries	941	1,843	2,642	1,370	1,390	1,550
Write-offs	38	12	17	30	410	540
Closing balance	12,849	13,398	12,899	12,879	12,489	12,229
CV / CE	2454	2363	2259	2300	2180	2080
Corporate	834	1016	1014	1010	2040	2150
SME	1367	1198	1380	1490	1480	1470
Mortgages	4479	3853	3423	3310	2950	2900
Others	3715.3	4967.5	4823.3	4775	3841.9	3633.1
GNPA	12,849	13,398	12,899	12,885	12,492	12,233
GNPA (%)	4.7	4.7	4.3	4.2	3.9	3.6
NNPA (%)	2.6	2.5	2.0	1.8	1.5	1.4

Source: Company, Anand Rathi Research

Fig 9 – Break-up of advances

(%)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
Corporate	11.0	10.0	10.0	10.0	10.4	10.0
AIB	22.0	22.0	21.0	21.0	21.6	22.0
SME + MSME	10.0	10.0	9.0	9.0	9.5	9.1
Mortgages	41.0	42.0	41.0	42.0	42.8	42.7
CV	4.0	4.0	3.0	3.0	2.2	1.7
Others	12.0	12.0	9.0	9.0	8.5	10.3
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, Anand Rathi Research

Quarterly snapshot

Fig 10 – Income statement

(Rs m)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
Interest income	8,693	8,781	9,199	9,493	10,000	10,777
Interest expense	5,460	5,331	5,395	5,753	5,889	6,257
NII	3,233	3,450	3,805	3,740	4,111	4,520
y/y growth	(3.2)	3.1	22.3	21.1	27.2	31.0
Non-interest income	977	1,183	1,148	924	992	954
Total Income	4,211	4,634	4,953	4,664	5,103	5,474
y/y growth	1.5	(5.7)	12.3	8.5	21.2	18.1
Operating expenses	2,459	2,645	2,744	3,002	3,278	3,473
Of which staff cost	1,322	1,380	1,463	1,551	1,717	1,796
PPOP	1,751	1,988	2,208	1,661	1,826	2,001
y/y growth	(17.8)	(28.8)	9.8	(17.8)	4.2	0.6
Total provisions	863	970	676	350	310	407
PBT	888	1,019	1,532	1,311	1,516	1,594
Tax	239	265	398	340	392	396
PAT	649	754	1,134	971	1,124	1,199
y/y growth	(21.1)	(21.7)	45.6	187.8	73.0	59.0

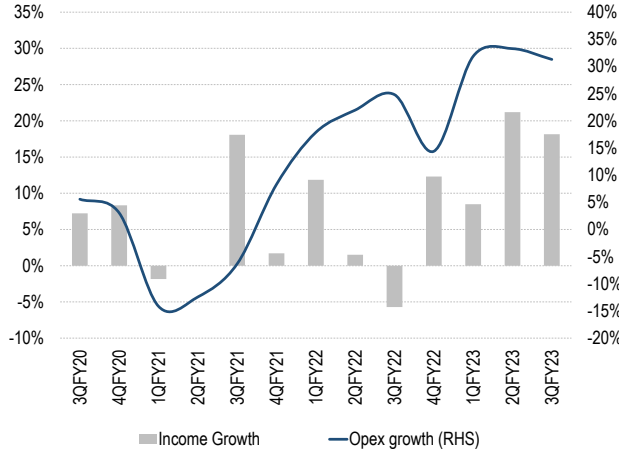
Source: Company, Anand Rathi Research

Fig 11–Balance Sheet

(Rs m)	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23
Equity capital	3,106	3,106	3,110	3,110	3,112	3,110
Reserves & Surplus	35,472	36,229	37,379	38,050	39,184	41,110
Shareholders' Funds	38,579	39,335	40,488	41,160	42,295	44,220
Deposits	317,695	322,311	346,917	350,810	369,601	395,060
Borrowings	40,422	32,082	40,818	39,990	35,149	38,250
Other Liabilities	18,052	18,048	20,178	20,250	20,771	21,130
Total Equity and Liabilities	414,747	411,776	448,401	452,210	467,816	498,660
Deposits y/y growth %	10.4	11.7	16.8	14.6	16.3	22.6
Deposits q/q growth %	3.8	1.5	7.6	1.1	5.4	6.9
Assets						
Cash and cash balances	38,392	28,049	15,775	28,950	21,060	31,570
Advances	268,503	276,588	290,958	298,140	312,914	329,660
Investments	86,261	85,833	90,982	99,430	104,734	108,540
Other assets	21,592	21,306	25,554	25,690	26,825	28,890
Total Assets	414,747	411,776	448,401	452,210	467,816	498,660
Advances y/y growth %	7.9	9.3	12.1	16.9	16.5	19.2
Advances q/q growth %	5.3	3.0	5.2	2.5	5.0	5.4

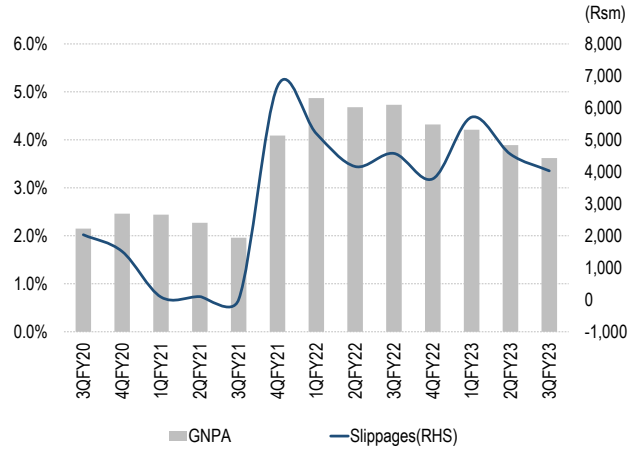
Source: Company, Anand Rathi Research

Fig 12 – Income vs. Opex growth



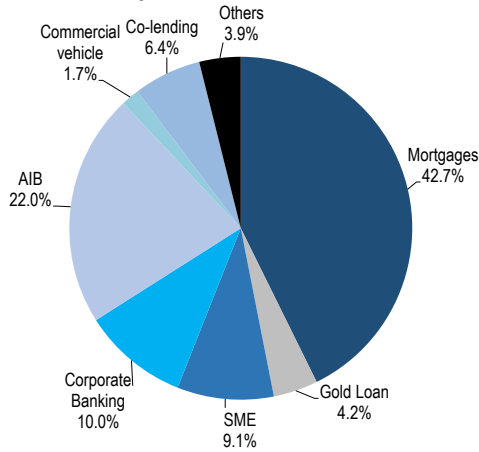
Source: Company, Anand Rathi Research

Fig 13 – Gross NPA and slippages



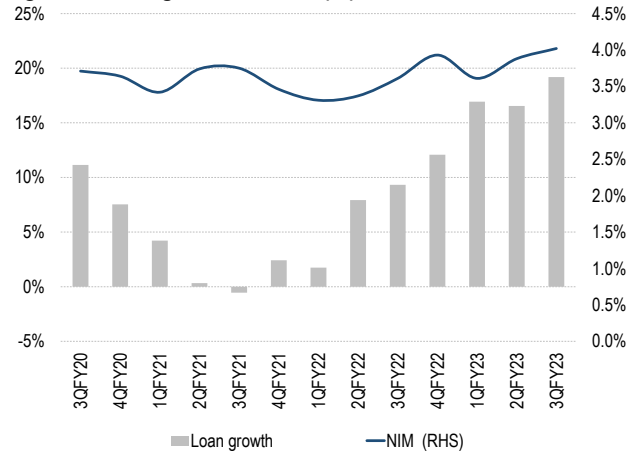
Source: Company, Anand Rathi Research

Fig 14 – Loan break-up



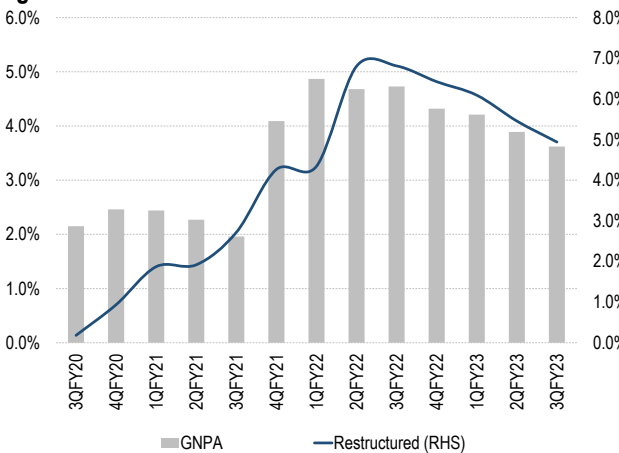
Source: Company, Anand Rathi Research

Fig 15 – Credit growth vs. NIM (%)



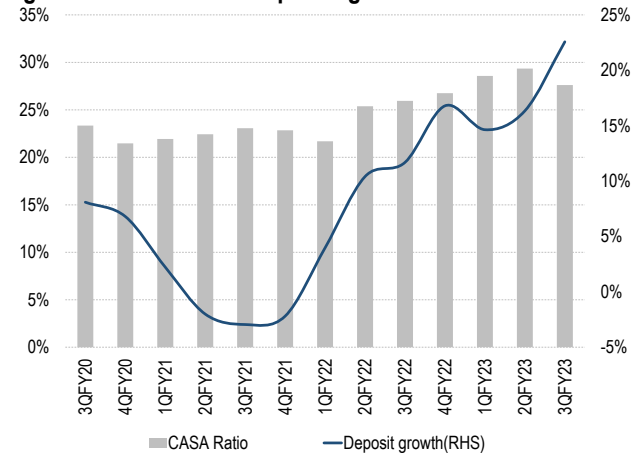
Source: Company, Anand Rathi Research

Fig 16 – Restructured assets vs. GNPA



Source: Company, Anand Rathi Research

Fig 17 – CASA ratio vs. Deposits growth



Source: Company, Anand Rathi Research

Valuation

- Our Jan'24 target of Rs146 is based on the two-stage DDM model. This implies a ~0.8x P/ABV multiple on its FY25e book.

Fig 18 – Change in estimates

(Rs m)	FY24e			FY25e		
	New	Old	Chg %	New	Old	Chg %
Net Interest Income	20,440	19,617	4.2	23,547	22,873	2.9
Pre-provisioning profit	10,151	11,466	(11.5)	12,266	13,281	(7.6)
PAT	5,075	6,069	(16.4)	6,226	6,977	(10.8)

Source: Anand Rathi Research

Risks

- Less-than-anticipated loan growth could cut into our estimates.
- Large slippages from the mortgage book.

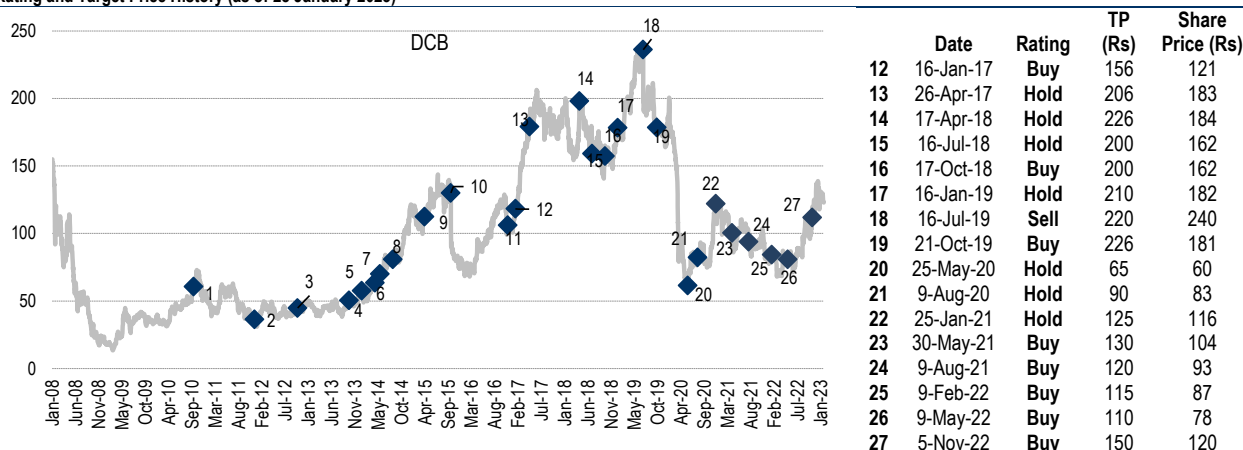
Appendix

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